

A REPORT
TO THE
ARIZONA LEGISLATURE

Accounting Services Division

Compliance Review

Williams Unified School District No. 2

Year Ended June 30, 2007



Debra K. Davenport
Auditor General

The **Auditor General** is appointed by the Joint Legislative Audit Committee, a bipartisan committee composed of five senators and five representatives. Her mission is to provide independent and impartial information and specific recommendations to improve the operations of state and local government entities. To this end, she provides financial audits and accounting services to the State and political subdivisions, investigates possible misuse of public monies, and conducts performance audits of school districts, state agencies, and the programs they administer.

Accounting Services Division Staff

Gregory Rickert, Manager and Contact Person
grickert@azauditor.gov

Roger Walter
Lisa Ashton

Copies of the Auditor General's reports are free.
You may request them by contacting us at:

Office of the Auditor General
2910 N. 44th Street, Suite 410 • Phoenix, AZ 85018 • (602) 553-0333

Additionally, many of our reports can be found in electronic format at:

www.azauditor.gov



DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

December 29, 2008

Governing Board
Williams Unified School District No. 2
P.O. Box 427
Williams, AZ 86046-0427

Members of the Board:

We have reviewed the District's audit reports and Uniform System of Financial Records (USFR) Compliance Questionnaire for the year ended June 30, 2007, prepared by Heinfeld, Meech & Co., P.C., to determine whether the District substantially complied with the USFR.

As a result of our review, we noted significant deficiencies in internal controls that indicate the District had not complied with the USFR. District management should implement the recommendations we have described in this report within 90 days after the date of this letter. We have communicated specific details for all deficiencies to management for correction.

During the 90-day period, the District may request a meeting to discuss these recommendations with my Office and the Arizona Department of Education by calling Magdalene Haggerty, Accounting Services Director, or Gregg Rickert, Accounting Services Manager.

A member of my staff will call the Business Manager in several weeks to discuss the District's action to implement these recommendations. After the 90-day period, my staff will schedule an on-site review of the District's internal controls to determine whether the District is in substantial compliance with the USFR. Our review will cover the deficiencies we have communicated to management as well as any other internal control deficiencies we are aware of at the time of our review

Sincerely,

Debra K. Davenport
Auditor General

TABLE OF CONTENTS



Introduction	1
Finding 1: The District's controls over competitive purchasing and expenditures should be strengthened	2
Finding 2: The District should ensure the accuracy of its student attendance records	4
Finding 3: The District's controls over auxiliary operations and student activities monies should be improved	6
Finding 4: The District should improve controls over its capital assets	7
Finding 5: The District should ensure the accuracy of its accounting records and financial reporting	8

INTRODUCTION

Williams Unified School District No. 2 is accountable to its students, their parents, and the local community for the quality of education provided. The District is also financially accountable to taxpayers for over \$7.4 million it received in fiscal year (FY) 2007 to provide this education.

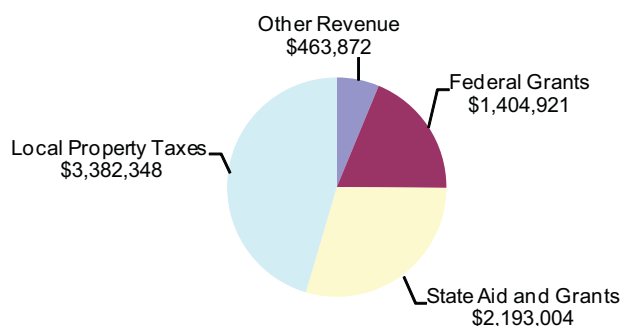
The District should use effective internal controls to demonstrate responsible stewardship for the tax dollars it receives. These controls are set forth in the *Uniform System of Financial Records* (USFR), a joint publication of the Office of the Auditor General and the Arizona Department of Education (ADE). The policies and procedures in the USFR incorporate finance-related state and federal laws and regulations and generally accepted accounting principles applicable to school districts. Districts are legally obligated to comply with USFR requirements, and doing so is good business practice.

As a result of our review of the District's audit reports and USFR Compliance Questionnaire for the year ended June 30, 2007, we determined that the District had failed to comply with the USFR. We noted certain deficiencies in controls that the District's management should correct to ensure that it fulfills its responsibility to establish and maintain adequate financial stewardship and to comply with the USFR. Our recommendations are described on the following pages.

District Facts Fiscal Year 2007

County: Coconino
Number of Schools: 2

Number of Students: 735
Grade Levels: K-12



Source: *Annual Report of the Arizona Superintendent of Public Instruction for Fiscal Year 2006-2007 and Williams Unified School District No. 2 Single Audit Reporting Package for the Fiscal Year Ended June 30, 2007.*

FINDING 1

The District's controls over competitive purchasing and expenditures should be strengthened

School District Procurement Rules for competitive sealed bidding and USFR guidelines for purchases below the competitive sealed bid threshold promote open and fair competition among vendors. This helps ensure that districts receive the best possible value for the public monies they spend. It is also essential that the District follow procedures designed to help ensure that its purchases are approved before committing district monies and its expenditures are adequately supported. However, the District did not always follow the procurement rules and the USFR guidelines. Specifically, the District did not always give notice that all information and invitation

The District did not always follow competitive purchasing requirements, and therefore, could not ensure it received the best value for the public monies it spent.

for bids (IFB) submitted would be made available for public inspection following the award of the contract, and IFBs did not always include a summary of the evaluation factors used in the bid award. Also, the District did not always time-stamp bid envelopes and did not always document the basis for why a multiple award was more advantageous than a single award. Further, when only one responsive bid was received, the District did not always retain documentation to support that the price submitted was fair and reasonable. For purchases requiring oral price quotations, the District did not always document why the lowest price quotation was not selected. In addition, the District did not always perform due-diligence procedures for purchases made through a purchasing cooperative. Finally, receipts for credit card purchases did not always clearly identify the employees making the purchase.

Recommendations

To strengthen controls over expenditures and to comply with the School District Procurement Rules and USFR guidelines, the District should establish the policies and procedures listed below:

- Include all applicable information required by the School District Procurement Rules in its IFBs and ensure that all supporting documentation is maintained on file.
- Retain documentation to support that the contract was awarded to the lowest responsive and responsible bidder.

Arizona Administrative Code R7-2-1024 provides the information that should be included in IFBs.

- Retain documentation to support that all bids were date- and time-stamped upon receipt and held until the date and time set for bid opening.
- Document in writing the specific reasons that a multiple award is more advantageous to the District than a single award, before contracts are awarded to multiple vendors.
- Award a contract to the sole responsive bidder only after determining that the price submitted is fair and reasonable, and that either other prospective vendors had reasonable opportunity to respond, or that there is not adequate time for resolicitation.
- Obtain oral price quotations from at least three vendors for purchases estimated to cost between \$5,000 and \$15,000. If the District cannot obtain three price quotations, it should document the vendors contacted and their reasons for not providing quotations. If a vendor is selected for reasons other than lowest price, the reasons should be fully documented and retained.
- Review documentation from each purchasing cooperative for at least a sample of the contracts that the District wishes to use, and document the due-diligence procedures performed.
- Require employees using district credit cards to clearly indicate on receipts and other supporting documentation the employee making the purchase and the specific district purpose for the expenditure.

USFR pages VI-G-7 and 8 provide guidance on the proper use of district credit cards.

FINDING 2

The District should ensure the accuracy of its student attendance records

The District may not have received the appropriate amount of funding, as absences were not always reported correctly.

The State of Arizona provides funding to school districts based on membership and attendance. In turn, the State requires school districts to maintain accurate attendance records to ensure that districts receive the appropriate amount of state aid and local property taxes. However, the District did not accomplish this objective. For example, the District did not always properly report absences for kindergarten, elementary, junior high, and high school students. In addition, the District did not always report absences correctly for high school students enrolled in a Joint Technological Education District (JTED) program. Further, students with ten consecutive unexcused absences were not always withdrawn correctly.

Recommendations

To help ensure that the District receives the correct amount of state funding, the District should establish the following procedures:

- For kindergarten students, if total instruction time scheduled for the year is between 346 and 692 hours per year, students not in attendance for at least three-quarters of the day should be counted as being absent. If the instructional time for the year is 692 hours or more, students not in attendance at least one-half of the day should be counted as being absent.
- Calculate attendance for students enrolled in first through eighth grades, if attendance is based on half-days, as follows:
 - Attendance of at least three-quarters of the instructional time scheduled for the day should be counted as a full day of attendance.
 - Attendance for at least one-half, but less than three-quarters, of the instructional time scheduled for the day should be counted as a half day of attendance.
- Ensure absences for high school students are recorded in accordance with the chart provided in ADE's *Instructions for Required Reports*.

- For JTED students, the District should calculate absences in accordance with the chart provided in ADE's *Instructions for Required Reports*, based on the number of district classes the student is enrolled in and attends.
- Withdraw students with ten consecutive unexcused absences as of the first day of nonattendance and maintain documentation to support the withdrawal.

ADE provides guidance for attendance reporting requirements in its *Instructions for Required Reports*.

FINDING 3

The District's controls over auxiliary operations and student activities monies should be improved

Poor cash controls left district and student monies susceptible to loss, theft, or misuse.

Auxiliary operations monies are district monies raised in connection with bookstore and athletic activities. Student activities monies are raised through students' efforts and are held by the District for safekeeping. Therefore, the District has a fiduciary responsibility to ensure that these monies are not misused, lost, or stolen. The Governing Board is responsible for establishing oversight for these monies to ensure that proper procedures are followed for collecting and spending them. However, proper oversight was not established. Specifically, the District included a donation in the Auxiliary Operations Fund rather than the Gifts and Donations Fund. In addition, the District did not always deposit auxiliary operations and student activities cash receipts in a timely manner. Further, the District maintained several inactive student activities accounts at Williams High School.

Recommendations

To improve controls over auxiliary operations and student activities monies, the District should establish and follow the policies and procedures listed below:

- Ensure the Auxiliary Operations Fund is used only to account for monies raised in connection with bookstore and athletic activities. Donations to the District should be deposited into the Gifts and Donations Fund.
- Deposit cash receipts intact daily, if significant, or at least weekly.
- Close inactive student club accounts and transfer any remaining balances to the student council.

FINDING 4

The District should improve controls over its capital assets

The District has invested a significant amount of money in its capital assets, which consist of land, buildings, and equipment. In order to protect its investment, the District should have an accurate list of these assets to ensure they are properly identified, accounted for, and safeguarded. However, the District did not accomplish this objective. For example, the District did not always record assets at actual cost on its capital assets list. Also, the District did not always retain documentation for the disposal of surplus property and recorded the disposal of assets in the incorrect fiscal year.

The auditors were unable to determine if surplus property was disposed of in accordance with the School District Procurement Rules.

Recommendations

To improve control over its capital assets, the District should retain documentation to support the actual cost of items recorded on the capital assets list or obtain estimated historical cost from vendor catalogs, price lists, appraisals, or governing board meeting minutes. In addition, the District should ensure that authorization is obtained and documented for the disposal of district property and dispose of those assets by one of the methods described in the School District Procurement Rules. Finally, the District should record the disposal of assets in the proper fiscal year.

Arizona Administrative code R7-2-1131 describes the allowable methods for disposing of assets.

FINDING 5

The District should ensure the accuracy of its accounting records and financial reporting

The District's Governing Board depends on accurate information to fulfill its oversight responsibility. The District should also report accurate information to the public and agencies from which it receives funding. To achieve this objective, management should ensure that its accounting records and annual financial report (AFR) are accurate and complete. However, the District maintained inactive funds in its accounting records and did not send monthly reports to the other members of intergovernmental agreements (IGA), as required of a fiscal agent. Also, the District did not include the Auxiliary Operations Fund in its AFR, and the District's budgeted and actual expenditures reported on the AFR did not agree to the District's revised expenditure budget and accounting records for several funds.

Recommendations

To help the District ensure the accuracy of its accounting records and report accurate financial information, the District should close all inactive funds. Further, the District should prepare monthly reports of receipts and disbursements and provide these reports to the IGA participants when the District is acting as the fiscal agent. Also, the District should include all funds on its AFR and update its accounting records for all budgeted amounts, revenues, and expenditures before preparing the AFR. A second employee should verify that the amounts reported on the AFR agree with the District's revised expenditure budget and accounting records before submitting it to ADE.